

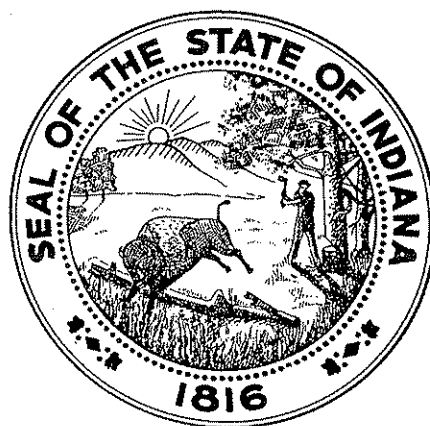
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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF
JASPER COUNTY, INDIANA

January 1, 2007 to December 31, 2007



FILED
05/19/2008

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Timothy M. Schreeg	01-01-07 to 12-31-08
Treasurer	Jeffrey D. Webb	01-01-07 to 12-31-08
Chairman of the Hospital Board	Bruce Wood	01-01-07 to 12-31-08
President of the Board of County Commissioners	Kendall Culp	01-01-07 to 12-31-08



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE JASPER COUNTY HOSPITAL, JASPER COUNTY, INDIANA

We have audited the accompanying basic financial statements of Jasper County Hospital (Hospital), and its aggregate discretely presented component units as of and for the year ended December 31, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Jasper County Hospital Foundation. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component units as of December 31, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

Management's Discussion and Analysis listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

April 16, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Jasper County Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements.

Using This Annual Report

This annual report consists two parts--*management's discussion and analysis*, and the *basic financial statements*.

- In the "*management discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements which provide information about the activities of the Hospital as a whole. The Statement of Net Assets reveals the assets and liabilities of the Hospital on December 31, 2007 while the Statement of Revenues, Expenses and Changes in Net Assets summarizes the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

The Hospital's net assets increased by \$964,594 or 7% as a result of this year's operations. Net Patient Service Revenue decreased by \$155,612 or 0.5% while total operating expenses increased by \$1,277,381 or 4.0%.

Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the hospital for the last 2 years:

	Net Assets	
	2007	2006
Current Assets	12,182,665	10,240,300
Assets limited as to use	961,944	1,008,725
Capital assets	3,973,928	4,435,489
Other Assets	<u>424,062</u>	<u>438,437</u>
Total Assets	<u>17,542,599</u>	<u>16,122,951</u>
Current Liabilities	3,337,339	2,820,560
Long-term debt, net of current maturities	<u>77,852</u>	<u>139,577</u>
Total Liabilities	<u>3,415,191</u>	<u>2,960,137</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,797,785	4,173,149
Restricted	452,438	493,361
Unrestricted	<u>9,170,680</u>	<u>8,496,304</u>
Total Net Assets	<u>14,127,408</u>	<u>13,162,814</u>

Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Revenue		
Net patient service revenue	28,546,918	28,702,532
Other Revenues	4,119,938	1,866,794
Other Nonoperating Income	<u>135,945</u>	<u>98,056</u>
Total Revenues	<u>32,802,801</u>	<u>30,667,382</u>
Expenses:		
Salaries and Benefits	17,887,942	16,899,397
Medical Professional Fees	1,040,251	1,017,271
Other Professional Fees	3,064,636	2,696,538
Medical supplies and drugs	4,943,516	5,004,954
Other supplies	827,257	1,185,541
Insurance	413,315	500,693
Depreciation and amortization	506,206	546,323
Other	<u>2,820,856</u>	<u>2,436,453</u>
Total Expenses	<u>31,503,979</u>	<u>30,287,170</u>
Excess of revenues over expenses before contributions	1,298,822	380,212
Capital grants and contributions	<u>185,772</u>	<u>151,700</u>
Increase in net assets	1,484,594	531,912
Prior period adjustment, correction of capital asset account	(520,000)	-

Capital Assets and Debt Administration

Capital assets

At the end of the fiscal year ended December 31, 2007 the Hospital had approximately \$3,973,928 invested in capital assets. The table below documents the type of assets that makeup of the Capital Assets held by the Hospital as of December 31, 2007.

Capital Assets at Year-end Net of Depreciation

	<u>2007</u>	<u>2006</u>
Land	253,965	253,965
Land Improvements	404,658	404,658
Buildings	6,741,253	6,675,743
Construction In Progress	27,758	-
Equipment	<u>5,065,041</u>	<u>5,668,887</u>
Total	12,492,675	13,003,253
Less Accumulated Depreciation	<u>8,518,747</u>	<u>8,567,764</u>
Capital Assets (Net)	3,973,928	4,435,489

More detailed information related to the Hospital's capital assets can be obtained by reviewing the notes to the financial statements.

Debt

At year-end the Hospital had approximately \$206,062 in loans and capital leases outstanding, versus \$262,340 at the end of the previous year which represents a decrease of 21%. The table below documents the debt held and its use:

Outstanding Debt at Year End

	<u>2007</u>	<u>2006</u>
Insurance Premium Financing	29,917	29,839
Automobile Financing	16,486	--
Capital Leases	<u>159,659</u>	<u>232,501</u>
Total Debt	206,062	262,340

More detailed information related to the Hospital's debt can be obtained by reviewing the notes to the financial statements.

During 2008, the Hospital plans to begin construction on an addition/renovation/office building project. Estimates prepared by architects engaged for the project total \$12 to \$13 million. The entire project cost will be financed, most likely, with either a traditional revenue bond issue or private bank loan. As of April 16, 2008 no bids have been let for this project.

Contacting the Hospital's Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administrative offices at 1104 East Grace Street, Rensselaer, IN 47978.

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF NET ASSETS
December 31, 2007

	Primary Government	Discrete Component Units	Total Reporting Entity
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 3,837,675	\$ 66,200	\$ 3,903,875
Short-term investments	-	640,305	640,305
Patient accounts receivable, net of estimated uncollectibles of \$3,414,823	6,229,429	-	6,229,429
Supplies and other current assets	1,409,056	-	1,409,056
Noncurrent cash and investments:			
Internally designated	961,944	-	961,944
Capital assets:			
Land and construction in progress	281,723	-	281,723
Depreciable capital assets, net of accumulated depreciation	3,692,205	-	3,692,205
Other assets	424,062	-	424,062
Total assets	<u>\$ 16,836,094</u>	<u>\$ 706,505</u>	<u>\$ 17,542,599</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 128,210	\$ -	\$ 128,210
Accounts payable and accrued expenses	2,595,585	-	2,595,585
Estimated third-party payor settlements	200,000	-	200,000
Other current liabilities	413,544	-	413,544
Long-term debt, net of current maturities	77,852	-	77,852
Total liabilities	<u>3,415,191</u>	<u>-</u>	<u>3,415,191</u>
Net assets:			
Invested in capital assets, net of related debt	3,797,785	-	3,797,785
Restricted:			
Expendable for capital acquisitions	229,133	-	229,133
Expendable for farm activities	198,859	-	198,859
Expendable for specific operating activities	24,446	-	24,446
Unrestricted	9,170,680	706,505	9,877,185
Total net assets	<u>13,420,903</u>	<u>706,505</u>	<u>14,127,408</u>
Total liabilities and net assets	<u>\$ 16,836,094</u>	<u>\$ 706,505</u>	<u>\$ 17,542,599</u>

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2007

	Primary Government	Discrete Component Units	Total Reporting Entity
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	\$ 28,546,918	\$ -	\$ 28,546,918
Other	3,985,716	134,222	4,119,938
Total operating revenues	32,532,634	134,222	32,666,856
Operating expenses:			
Salaries and benefits	17,887,942	-	17,887,942
Medical professional fees	1,040,251	-	1,040,251
Other professional fees	3,064,636	-	3,064,636
Medical supplies and drugs	4,943,516	-	4,943,516
Insurance	413,315	-	413,315
Other supplies	827,257	-	827,257
Depreciation and amortization	506,206	-	506,206
Other	2,674,746	69,178	2,743,924
Total operating expenses	31,357,869	69,178	31,427,047
Operating income	1,174,765	65,044	1,239,809
Nonoperating revenues (expenses):			
Investment income	64,532	-	64,532
Investment expense	(14,976)	-	(14,976)
Noncapital grants and contributions	71,413	-	71,413
Loss on sale of equipment	(13,521)	-	(13,521)
Other	(105,441)	57,006	(48,435)
Total nonoperating revenues	2,007	57,006	59,013
Excess of revenues over expenses before capital grants and contributions, additions to permanent endowments, and special and extraordinary items	1,176,772	122,050	1,298,822
Capital grants and contributions	185,772	-	185,772
Increase in net assets	1,362,544	122,050	1,484,594
Net assets beginning of the year	12,578,359	584,455	13,162,814
Prior period adjustment:			
Correction of capital asset account (Note IV.F.)	(520,000)	-	(520,000)
Restated net assets beginning of the year	12,058,359	584,455	12,642,814
Net assets end of the year	\$ 13,420,903	\$ 706,505	\$ 14,127,408

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2007

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 29,132,073
Payments to suppliers and contractors	(12,938,639)
Payments to employees	(17,043,874)
Other receipts and payments, net	<u>3,361,435</u>
Net cash provided by operating activities	<u>2,510,995</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	71,413
Other	<u>(48,435)</u>
Net cash provided by noncapital financing activities	<u>22,978</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	185,772
Proceeds from loans payable	193,973
Principal paid on long-term debt	(274,804)
Interest paid on long-term debt	(14,976)
Purchase of capital assets	<u>(539,238)</u>
Net cash used by capital and related financing activities	<u>(449,273)</u>
Cash flows from investing activities:	
Interest and dividends on investments	64,532
Purchase of investments	<u>(97,935)</u>
Net cash used by investing activities	<u>(33,403)</u>
Net increase in cash and cash equivalents	2,051,297
Cash and cash equivalents at beginning of year	<u>2,814,522</u>
Cash and cash equivalents at end of year	<u>\$ 4,865,819</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 3,903,875
Restricted cash and cash equivalents	<u>961,944</u>
Total cash and cash equivalents	<u>\$ 4,865,819</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,239,809
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	506,206
(Increase) decrease in current assets:	
Patient accounts receivable	585,151
Supplies and other current assets	(331,503)
Increase in current liabilities:	
Accounts payable and accrued expenses	455,610
Other current liabilities	<u>55,722</u>
Net cash provided in operating activities	<u>\$ 2,510,995</u>

Noncash investing, capital, and financing activities:

The Hospital entered into capital lease obligations of \$24,553 for new equipment in 2007.
The Hospital included \$14,375 of amortization in the depreciation and amortization expenses.
The Hospital made an adjustment to reduce its capital asset account by \$800,000, through a prior period adjustment described in Note IV.F.

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Jasper County Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and out-patient health care.

The Board of County Commissioners of Jasper County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Jasper County.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component unit. The component unit discussed below is included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic financial statements to emphasize that it is legally separate from the Hospital.

Discretely Presented Component Unit

The Jasper County Hospital Foundation is a significant discretely presented component unit of the Hospital. It would be misleading to exclude the Foundation from the Hospital's financial statements because of its relationship with the Hospital. The foundation's Statement of Net Assets is presented as of June 30, 2007, and its Statement of Revenues, Expenses, and Changes in Net Assets is presented for the year ended June 30, 2007.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 2,500	Straight-line	20 years
Buildings and improvements	2,500	Straight-line	40 years
Equipment	2,500	Straight-line	5-10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The Hospital did not capitalize any interest expense during the year 2007.

4. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Grants and Contributions

From time to time, the Hospital receives grants from Jasper County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

F. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

G. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Included in the hospital other operating revenues were two disproportionate share (DSH) payments. DSH payments result from reviews of prior year Medicaid billings and their related shortfalls when comparing costs of services to payments. The first DSH payment received, in the amount of \$755,337, was for the state fiscal year 2004; the second DSH payment in the amount of \$1,157,422, was for the state fiscal year 2005. Historically, the Hospital only receives one DSH payment per year. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

H. Compensated Absences

The Hospital's policy on paid hours off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid hours off, at a rate of 6.16 to 12.31 hours per pay period.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Part-time employees earn paid hours off at a rate of 5% of their hours paid including overtime, but excluding on-call time, after a minimum of 600 hours are worked during their benefit year.

The Hospital accounts for accrued compensated absences on a per payroll basis, computed at current wage rates, and the financial statements recognize this liability. The Hospital pays accumulated paid hours off upon employee termination.

II. Detailed Notes

A. Deposits

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 6,806,040
Receivable from Medicare	1,993,848
Receivable from Medicaid	<u>844,364</u>
Total patient accounts receivable	9,644,252
Less allowance for uncollectible amounts	<u>3,414,823</u>
Patient accounts receivable, net	<u>\$ 6,229,429</u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,717,811
Payable to suppliers	646,310
Other	<u>231,464</u>
Total accounts payable and accrued expenses	<u>\$ 2,595,585</u>

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 253,965	\$ -	\$ -	\$ 253,965
Construction in progress	-	27,758	-	27,758
Total capital assets, not being depreciated	<u>253,965</u>	<u>27,758</u>	<u>-</u>	<u>281,723</u>
Capital assets, being depreciated:				
Land improvements	404,658	-	-	404,658
Buildings and improvements	6,675,743	65,510	-	6,741,253
Equipment	<u>5,668,888</u>	<u>470,526</u>	<u>1,074,369</u>	<u>5,065,045</u>
Totals	<u>12,749,289</u>	<u>536,036</u>	<u>1,074,369</u>	<u>12,210,956</u>
Less accumulated depreciation for:				
Land improvements	326,486	22,867	-	349,353
Buildings and improvements	4,622,763	111,884	-	4,734,647
Equipment	<u>3,618,516</u>	<u>357,083</u>	<u>540,848</u>	<u>3,434,751</u>
Totals	<u>8,567,765</u>	<u>491,834</u>	<u>540,848</u>	<u>8,518,751</u>
Total capital assets, being depreciated, net	<u>4,181,524</u>	<u>44,202</u>	<u>533,521</u>	<u>3,692,205</u>
Total primary government capital assets, net	<u>\$ 4,435,489</u>	<u>\$ 71,960</u>	<u>\$ 533,521</u>	<u>\$ 3,973,928</u>

D. Construction Commitments

Construction work in progress is comprised of some minor room renovations on the Hospital's third floor. These renovations are primarily being funded by the Hospital Foundation.

E. Leases

1. Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for equipment. Rental expenditures for these leases were \$1,005,477. The following is a schedule by years of future minimum rental payments as of year end:

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2008	\$ 1,098,570
2009	1,069,676
2010	1,051,612
2011	945,404
2012	<u>114,005</u>
Total	<u>\$ 4,279,267</u>

2. Capital Leases

The Hospital has entered into various capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year-end are as follows:

2008	\$ 103,749
2009	50,529
2010	20,295
2011	<u>5,760</u>
Total minimum lease payments	180,333
Less amount representing interest	<u>20,674</u>
Present value of net minimum lease payments	<u>\$ 159,659</u>

Assets acquired through capital leases still in effect are as follows:

Equipment	\$ 475,554
Accumulated depreciation	<u>174,319</u>
Total	<u>\$ 301,235</u>

F. Long-Term Liabilities

1. Notes Payable

The Hospital has entered into various notes. Annual debt service requirements to maturity for the notes, including interest of \$3,502, are as follows:

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2008	\$ 34,796
2009	4,217
2010	4,217
2011	4,217
2012	<u>2,458</u>
Total	<u>\$ 49,905</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 232,501	\$ 24,553	\$ 97,395	\$ 159,659	\$ 95,133
Notes payable	<u>29,839</u>	<u>198,338</u>	<u>181,774</u>	<u>46,403</u>	<u>33,077</u>
Total long-term liabilities	<u>\$ 262,340</u>	<u>\$ 222,891</u>	<u>\$ 279,169</u>	<u>\$ 206,062</u>	<u>\$ 128,210</u>

G. Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	<u>2007</u>
Specific purpose funds:	
Other	\$ 24,446
Cumulative building funds:	
Purchase of equipment	229,133
Farm activity funds:	
Farm activity	<u>198,859</u>
Total expendable, restricted net assets	<u>\$ 452,438</u>

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$125,822 for 2007.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

1. Capital Improvement Funds - Funds designated by the Hospital Board of Trustees for construction and other capital improvement.
2. Designated Funds - Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Internally designated:	
Capital improvement:	
Cash and cash equivalents	\$ 229,133
Board designation:	
Cash and cash equivalents	<u>732,811</u>
Total internally designated	<u>\$ 961,944</u>

IV. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits To Employees

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Self-Insurance Fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$65,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning of fiscal year	\$ 275,578	\$ 289,335
Incurred claims and changes in estimates	2,464,789	1,877,767
Claim payments	<u>(2,514,710)</u>	<u>(1,891,524)</u>
Unpaid claims, end of fiscal year	<u>\$ 225,657</u>	<u>\$ 275,578</u>

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
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B. Subsequent Events

Farm Sale

The Jasper County Hospital sold a 300 acre farm on February 19, 2008. Total gross proceeds of the sale were \$1,356,812. At the time of the sale, the farm was carried on the Hospital capital asset records at \$200,000 for the land and \$0 for the buildings, which were fully depreciated.

Building Project

During 2008, the Hospital plans to begin construction on an addition/renovation/office building project. Estimates prepared by architects engaged for the project total \$12 to \$13 million. The entire project cost will be financed, most likely, with either a traditional revenue bond issue or private bank loan. As of April 16, 2008, no bids have been let for this project.

C. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

D. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

E. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2007, net patient service revenues in the accompanying statements of operations were increased by \$661,630, to reflect changes in the estimated settlements for certain prior years.

F. Prior Period Adjustment

During 2007, the Hospital became aware of a CT scanner it was using under an operating lease that had been inadvertently included in its capital asset accounts. The CT scanner was included on their capital asset listing at \$800,000 and had accumulated \$280,000 in depreciation expense. This error was corrected in 2007, as reflected by a prior period adjustment to Beginning Net Assets on the Statement of Revenues, Expenses and Changes in Net Assets.

G. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln National Life as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Lincoln National Life Insurance
1300 South Clinton
Fort Wayne, Indiana 46801
Ph. 800-454-6265

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute at the current rate is 2 1/2% of an employee's first \$50,000 in wages and 5% on all wages above \$50,000. Employer contributions to the plan for the year 2007 were accrued at year end in the amount of \$378,879.

JASPER COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on April 16, 2008, with Timothy M. Schreeg, Executive Director; Bruce Wood, Chairman of the Hospital Board; and Jeffrey D. Webb, Treasurer. Our audit disclosed no material items that warrant comment at this time.